

Message Text

PAGE 01 COLOMB 00112 01 OF 02 130407Z

61

ACTION NEA-06

INFO OCT-01 SS-14 ISO-00 EUR-08 NSC-05 NSCE-00 INR-05

CIAE-00 DODE-00 EB-03 PRS-01 L-01 PM-03 SP-02 /049 W

----- 006140

R 101155Z JAN 75

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 2091

INFO AMEMBASSY DACCA

AMEMBASSY KATHMANDU

AMEMBASSY ISLAMABAD

AMEMBASSY NEW DELHI

AMEMBASSY KABUL

AMEMBASSY TEHRAN

CINCPAC HONOLULU HI

C O N F I D E N T I A L SECTION 1 OF 2 COLOMBO 0112

LIMDIS

E.O. 11652 GDS/LIMDIS

TAGS: PFOR, PINT, ECON, CE

SUBJ: QUARTERLY OVERVIEW: OCTOBER - DECEMBER 1974

REF: COLOMBO 2832, OCTOBER 10, 1974

1. SUMMARY: QOUR CLOSED ON SOMBER, DISILLUSIONED MOOD IN SRI LANKA, WHOSE PROPSECTS FOR 1975 ARE BLEAK INDEED. DISASTROUS FALL (MAHA) PLANTING SEASON FORESHADOWS INCREASED MALNUTRITION AND GREATER SUFFERING BY THE POOR NEXT SPRING AND SUMMER. COUNTRY'S EXTERNAL ACCOUNTS SITUATION IS IN SHAMBLES. PRODUCTION AND PRODUCTVITY IN INDUSTRIAL AND PLANTATION SECTORS ARE DECLINING. FEELING EXTENDING FROM PRIME MINISTER BANDARANAIKE TO PRIVATE CITIZEN IS THAT COUNTRY IS IN GRIP OF CIRCUMSTANCES BEYOND CONTROL, WHETHER OF NATURE OR OF OUTSIDE WORLD, WITH NO ANSWERS TO QUESTIONS OF JUST HOW BAD 1975 WILL PROVE AND WHAT TO DO TO COPE.

CONFIDENTIAL

PAGE 02 COLOMB 00112 01 OF 02 130407Z

2. POLITICS, MARKED BY GOVERNMENT DEFEAT IN BY-ELECTION AND OPPOSTION EFFECTS TO DRIVE WEDGE BETWEEN LEFTISTS AND PRIME MINISTER, WERE CONTENTIOUS AND UNSETTLED. TROTSKYITE LANKA SAMAJA PART (LSSP), CONVINCED THAT RIGHTIST REACTION

COULD LIE AROUND THE CORNER, CONTINUED PUSH FOR FURTHER NATIONALIZATION, CREATING ANGRY CONFRONTATION WITH PRIME MINISTER WHICH THREATENED TO RUPTURE UNITED FRONT (UF) COALITION. THAT IT DID NOT WAS DUE TO PRIME MINISTER'S REFUSAL TO BOW UNDER PRESSURE, TO HER WILLINGNESS TO CRACK DOWN ON LSSP TRADE UNION AGITATION, AND ESPECIALLY TO LSSP'S CONTINUED INTEREST IN REMAINING WITH UF.

3. GRIM PROSPECTS HAVE LED TO INTENSIVE GSL EFFORT TO OBTAIN EXTERNAL CREDITS FROM ALL POSSIBLE SOURCES. GSL HAS FOCUSED ON DIRECT APPEALS, PARTICULARLY TO MIDDLE EAST OIL PRODUCERS, WITH FAIRLY GOOD RESULTS. PM'S VISIT TO IRAN IN EARLY OCTOBER RESULTED IN \$67 MILLION AID PACKAGE. IRAQ CAME THROUGH WITH \$20 MILLION PLEDGE IN EARLY DECEMBER AND, FOLLOWING VISIT LATER IN MONTH BY EDUCATION MINISTER MAHMUD, GROUP OF PERSIAN GULF STATES TOGETHER WITH SAUDI ARABIA ARE REPORTED TO BE PREPARED TO EXTEND UP TO \$64 MILLION IN CREDITS. GSL HAS ALSO OBTAINED FIRST PLEDGE OF NEW AID SINCE 1958 FROM USSR AND IS VERY HOPEFUL THAT PRC WILL SUPPLEMENT USUAL 200,000 TONS RICE DURING UPCOMING RICE/RUBBER PACT NEGOTIATIONS. WESTER AID GROUP MEMBERS ARE IMPLEMENTING PLEDGES MADE LAST MAY FOR APPROXIMATELY \$120 MILLION IN ASSISTANCE, WITH SINGLE NOTABLE EXCEPTION OF UNITED STATES. END SUMMARY.

4. POLITICAL SCENE: POLITICS SLID INTO QUALITATIVELY DIFFERENT PHASE FOR UFG. WHERE PREVIOUSLY INTRA-UF CONFLICT CENTERED MAINLY ON CARVING UP ASSETS OF UNP "REACTIONARIES", TODAY'S ISSUES ARE FOCUSED ON NEED OF UNPLEASANT BELT-TIGHTENING, EVEN BY UF SUPPORTERS, CAUSED BY ABSOLUTE SHORTAGES. LSSP IS CONVINCED THAT SRI LANKA'S CURRENT SITUATION REPRESENTS DANGEROUS PHASE FOR UF SOCIALISM, IN WHICH LSSP SEES NUMEROUS SIGNS OF SLACKENING IDEOLOGICAL FERVOR WITHIN DOMINANT SRI LANKA FREEDOM PARTY (SLFP), AND OF SLFP'S CONSERVATIVE WING INDULGING IN POSSIBLE CONSPIRACY WITH OPPOSITION UNITED NATIONAL PARTY (UNP) TO OUST LEFTISTS. CONSEQUENTLY, MONTHS AGO, LSSP
CONFIDENTIAL

PAGE 03 COLOMB 00112 01 OF 02 130407Z

STARTED TO PRESS FOR LAST BLOWS WHICH WOULD COMPLETE ROUT OF "CAPITALIST FORCES."

5. NATIONALIZATION HAS BEEN SPEARHEAD OF TROTSKYITE PRESSURE, SPECIAL-PRIORITY ITEMS BEING TAKE-OVER OF TEXTILE MILLS, FOREIGN-OWNED PLANTATIONS, AND BANKS. AS UNP POLICY OF CONFRONTATION HAS FADED FROM SIGHT, LSSP STRIDENCY HAS ANGERED PRIME MINISTER, WHO SEES IT AS EFFORT TO CROWD HER INTO POSITIONS SHARPLY DETRIMENTAL TO HER INTERESTS, TO INTEREST OF IMPORTANT SLFP FACTIONS, AND TO COUNTRY'S ECONOMIC AID-SEEKING EFFORTS ABROAD.

6. WHEN LSSP STEPPED UP ITS CAMPAIGN AND BEGAN PREPARA-

TIONS FOR DEMONSTRATIONS, "TOKEN" STRIKE ACTION BY ITS TRADE UNIONS, AND FORMATION OF "DEFENSE SQUADY" IN OBVIOUS EFFORT TO BROWBEAT SLFP INTO ACQUIESCENCE, MRS BANDARANAIKE PERSONALLY ORDERED FROM GEORGIA, DURING HER USSR VISIT, NOV 18 CURFEW FORCING CANCELLATION OF MAJOR LSSP TRADE UNION DEMONSTRATION (COLOMBO 3241, NOV 18, 1975). PRIME MINISTERS CONFRONTATION WITH LSSP BEGAN TO WIND DOWN ONLY IN LAST FEW WEEKS, WITH LSSP'S RETREAT FROM BRINK. PARTY RENEWED ITS AFFIRMATIONS OF "UNSHAKABLE UF UNITY" AND OF CONFIDENCE IN PRIME MINISTER'S LEADERSHIP, SHOWING THAT IT STILL DOES NOT INTEND TO PROVOKE RUPTURE OF COALITION WHICH WOULD REINFORCE MODERATES, AND POSSIBLY EVEN PROVIDE ENTRY INTO GOVERNMENT FOR UNP.

7. SLFP LEFT ALSO DID NOT ESCAPE MRS BANDARANAIKE'S WRATH FOR OPENLY SIDING WITH LSSP IN PRESSING FOR MORE RADICAL POLICIES. CLEARER INDICATOR OF ITS RETREAT IS FOUND IN WILTING OF JANAVEGAYA GROUP LED BY KUMAR RUPASINGHE. HE IS REPORTEDLY DEJECTED, CONTEMPLATING SUSPENSION OF PUBLICATION OF JANAVEGAYA, AND PONDERING BENEFITS OF PROLONGED ABSENCE FROM COUNTRY. IN CONTRAST, HIS BROTHER-IN-LAW, ANURA BANDARANAIKE, HAS EMERGED INTO FULL EMINENCE AS RELENTLESS ARTICULATOR OF ANTI-LSSP SENTIMENT WITHIN SLFP. ANURA'S CURRENT TACK IS TO PUSH IDEA OF CABINET RESHUFFLE IN PAGES OF HIS DAILY, "ADHA, IN WHICH LSSP WOULD BE RELEGATED TO MINOR-PRESUMABLY UNACCEPTABLE - ROLE. HIS OBJECTIVE INCREASINGLY IS SEEN AS LSSP'S DEPARTURE FROM UF. HIS CONTACTS WITH UNP PRESIDENT J.R. CONFIDENTIAL

PAGE 04 COLOMB 00112 01 OF 02 130407Z

JAYEWARDENE REPORTEDLY ARE FREQUENT AND CLOSE, FUELING MUCH OF CURRENT SPECULATION THAT UNP MIGHT SLIP INTO GOVERNMENT THROUGH BACK DOOR AS LSSP EXITS.

8. NO EVIDENCE EXISTS THAT MRS BANDARANAIKE IS SWAYED BY SUCH THINKING. HER FEELINGS TOWARD UNP REMAIN STRONGLY HOSTILE. SHE IS CLEARLY UNHAPPY THAT OPPOSITION IS GAINING GROUND WITH PUBLIC OPINION, REFLECTED AGAIN BY LOSS OF KALAWEWA SEAT, AN SLFP STRONGHOLD, IN DECEMBER 8 BY-ELECTION. UNP VICTORY HAS MADE IT MORE CONFIDENT, ITS APPETITE WHETTED BY SEVEN OF EIGHT BY-ELECTION TRIUMPHS AND HUNGRY FOR GENERAL ELECTIONS, THE EARLIER THE BETTER. IF ANYTHING, PRIME MINISTER IS MORE WARY OF ADVENTURISM FROM RIGHT, WHICH HAS POPULAR BASE DERIVED IN PART FROM WIDESPREAD BELIEF IN UF CORRUPTION AND MISMANAGEMENT, THAN FROM LEFT, WHICH IS DEPENDENT ON HER SUFFERANCE. SHE COVERED HERSELF ON BOTH SIDES WITH EMERGENCY REGULATIONS OF DEC 20 BANNING ANY CHALLENGE TO VALIDITY OF HER 1972 CONSTITUTION OR FORMATION OF LSSP PARA-MILITARY UNITS. THIS ACTION REFLECTS HER DEEPSEATED APPREHENSION CONCERNING DOMESTIC SECURITY IN CONTEXT OF GROWING WANT, BASED IN PART ON

ANXIOUS ASSESSMENTS FROM SECURITY SERVICES.

9. FOR MOMENT, PRIME MINISTER HAS WON BREATHING-SPELL,
GIVING HER TIME TO CONCENTRATE ON FOOD CRISIS.
ALTHOUGH PRIVATELY AWARE IN EARLY DECEMBER OF EXTENSIVE
DROUGHT DAMAGE (COLOMBO 3491, DECEMBER 18, 1974) MRS. BANDARANAIKE
DID NOT RISK RAISING SUBJECT IN PUBLIC WHILE IN MIDST OF POLITICAL
BATTLES. THUS, UNTIL TWO WEEKS AGO NO PUBLIC ATTENTION HAD
BEEN FOCUSED ON FACT THAT SRI LANKA'S NORMALLY RICE-SURPLUS
AREAS HAVE BEEN SERIOUSLY AFFECTED BY PROLONGED DROUGHT.
SILENCE HAS NOW BEEN BROKEN, MOST IMPORTANTLY IN PRIME
MINISTER'S MAJOR SPEECH IN MATARA ON DECEMBER 28 WARNING
SLFP PARTY CONGRESS THAT INCREASED FOOD PRODUCTION WAS
NECESSARY AT ALL COSTS TO AVOID BANGLADESH-STYLE FAMINE.
THIS THEME WAS REPEATED IN HER NEW YEAR'S MESSAGE AND
IS NOW ON PAGE ONE OF GOVERNMENT-CONTROLLED PRESS. FOOD
PRODUCTION CAMPAIGN IS LIKELY TO DOMINATE NEXT QUARTER,
A WELCOME AND NECESSARY DEVELOPMENT.

CONFIDENTIAL

PAGE 05 COLOMB 00112 01 OF 02 130407Z

10. MRS. BANDARANAIKE IS IN RELATIVELY STRONG POLITICAL
POSITION TO GIVE THIS CAMPAIGN DIRECTION, BUT PRESSURES ARE SURE TO
MOUNT. DURING NEXT QUARTER ATTITUDE OF LSSP WILL CONTINUE
TO DETERMINE WHETHER POLITICAL ATMOSPHERE CONDUCTIVE
TO FOOD CAMPAIGN WILL PERSIST, SINCE LSSP IS REALLY
KEYSTONE TO ATTITUDE OF WHOLE LEFT MOVEMENT IN SRI LANKA.
DESPITE SIGNIFICANT DISSENSION WITHIN PARTY, LSSP
IS STILL RECEPTIVE TO ADVANTAGES OF MEMBERSHIP IN UF
COALITION. YET, PARTY IS ALSO STATING FREELY THAT IT
IS READY TO LEAVE COALITION UNDER SO-FAR-UNDEFINED CONDITIONS,
AND CONCURRENTLY ITS TRADE UNIONS HAVE BEEN FOMENTING RASH
OF STRIKES IN PRIVATE SECTOR. INTERNAL PRESSURES ON
LEADERSHIP ARE BOUND TO GROW AS ECONOMIC HARDSHIPS IN
URBAN AREAS GROW, AND WITH THEM FURTHER DRIVE TO PUSH
UF ON LEFTIST, RADICAL COURSE.

CONFIDENTIAL

PAGE 01 COLOMB 00112 02 OF 02 130346Z

61
ACTION NEA-06

INFO OCT-01 SS-14 ISO-00 EUR-08 NSC-05 NSCE-00 INR-05

CIAE-00 DODE-00 EB-03 PRS-01 L-01 PM-03 SP-02 /049 W

----- 006086

R 101155Z JAN 75
FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 2092

INFO AMEMBASSY DACCA
AMEMBASSY KATHMANDU
AMEMBASSY ISLAMABAD
AMEMBASSY NEW DELHI
AMEMBASSY KABUL
AMEMBASSY TEHRAN
CINCPAC HONOLULU HI

C O N F I D E N T I A L SECTION 2 OF 2 COLOMBO 0112

LIMDIS

11. GRIM PROSPECTS FOR ECONOMY: THERE WAS LITTLE ENOUGH GOING FOR SRI LANKA'S ECONOMY WHEN QUARTER BEGAN, BUT PAST THREE MONTHS HAVE REVEALED NEW CALAMITIES. DROUGHT, UNPRECEDENTED IN 20 YEARS IN MOST OF DRY ZONE RICE-SURPLUS AREA AND IN 100 YEARS IN JAFFNA, HAS BUT DEEPLY INTO FALL (MAHA) PLANTING SEASON. GSL HAS SCALED DOWN ITS SEPT ESTIMATE OF HARVEST FROM 58 MILLION BUSHELS TO 32 MILLION, MEANING THAT ONLY FRACTION OF AMOUNT NECESSARY TO SERVICE RICE RATION WILL BE AVAILABLE. SUBSIDIARY FOOD PRODUCTION IS ALSO AT RECORD LOW AND THEREFORE MAY NOT BE ABLE TO CUSHION RICE SHORTAGES.

12. ONLY MAGNITUDE OF THIS DISASTER REMAINS TO BE EXACTLY ESTABLISHED, BUT RIPPLE EFFECTS OF DROUGHT ON SRI LANKA ARE ALREADY BEING FELT. ACUTE MALNUTRITION RATHER THAN FAMINE IS MOST GSL CURRENTLY CONCEDES ULTIMATELY MAY TAKE PLACE. IN FACT IT ALREADY EXISTS AMONG LARGE ELEMENTS OF COUNTRY'S POPULATION: ESTATE WORKERS, URBAN POOR LACKING CASH INCOME, DRY ZONE CULTIVATORS.
CONFIDENTIAL

PAGE 02 COLOMB 00112 02 OF 02 130346Z

WHAT MOST SUSTAINS THIS LOWEST STRATUM--AND IS CRUCIAL INPUT FOR ANOTHER SUBSTANTIAL GROUP WHOSE DIET IS STEADILY DETERIORATING IN QUANTITY AND QUALITY--IS ONE POUND WEEKLY RICE RATION TOGETHER WITH SUBSIDIZED SUGAR AND FLOUR ALLOCATIONS. THESE WERE NOT REDUCED IN PERIOD UNDER REVIEW, ALTHOUGH STEP WAS REPORTEDLY URGED BY LSSP FINANCE MINISTER N.M. PERERA BUT OPPOSED BY SLFP AS POLITICALLY UNACCEPTABLE.

13. PROJECTED RICE AND WHEAT FLOUR IMPORT REQUIREMENTS FOR 1975 WERE AT RECORD LEVELS EVEN BEFORE AWARENESS OF MAHA FAILURE. GSL OFFICIALS ARE CURRENTLY TRYING TO BUY ADDITIONAL 300,000 TONS OF RICE IN EXCESS OF PLANNED REQUIREMENTS, AND MORE MAY BE NEEDED. AT SAME TIME, SRI LANKA'S INTERNATIONAL ACCOUNTS POSITION IS DESPERATE. CALCULATION OF ALL POSSIBLE AND SOME IMPROBABLY SOURCES OF FOREIGN EXCHANGE INCOME--EXPORTS, OFFICIAL AID, SHORT-TERM BANK CREDITS, STANDBY AND OTHER MONETARY FACILITIES--STILL FINDS SRI LANKA SHORT BY WELL OVER \$150 MILLION FOR

1975 TO PAY FOR NECESSARY INDUSTRIAL AND FOOD IMPORTS. THIS COMPUTATION INCLUDES JUST-ANNOUNCED \$64 MILLION IN ARAB CREDITS (COLOMBO 58). DESPITE SHARPLY INCREASED FOOD IMPORTS, IT APPEARS INEVITABLE THAT RATION WILL HAVE TO BE ALTERED DOWNWARD. INDEED, PRIME MINISTER REPORTEDLY IS RESIGNED TO THIS AND CONCERNED NOW WITH MINIMIZING POLITICAL REPERCUSSIONS INVOLVED. ALL OPTIONS BEING CONSIDERED DIFFER ONLY IN IDENTIFYING WHICH OF COUNTRY'S AGRICULTURAL REGIONS SHOULD BE DROPPED FROM RATION SCHEME IN ORDER TO PERMIT GSL TO MEET EMERGENCY NEEDS; DROPPING ANY OF THEM CARRIES HIGH POLITICAL RISKS.

14. CURRENT SITUATION ADDS UP TO WHAT IBRD TEAM IN DECEMBER CALLED "EXTREMELY GRIM" PROSPECTS FOR SRI LANKA IN 1975. EXTERNAL CONDITIONS CONSTITUTE MOST IMPORTANT CAUSE OF SRI LANKA'S CRISIS. THESE CAN BE SUMMED UP AS PRICE LEVELS PREVAILING FOR COUNTRY'S SEVEN BASIC TRADE ITEMS: TEA, RUBBER, COCONUT; RICE, FLOUR, SUGAR, OIL. ANY CHANGES IN NEAR FUTURE WILL PROBABLY RUN AGAINST SRI LANKA. FOURTEEN MONTHS OF CONTINUED IMPORT REDUCTIONS, OF STEADY ENFORCED CUTBACKS ON SUBSIDIZED BENEFITS AND SERVICES, AND OF DEGREE OF BELT-TIGHTENING UNPRECEDENTED
CONFIDENTIAL

PAGE 03 COLOMB 00112 02 OF 02 130346Z

FOR SRI LANKA FIND COUNTRY WORSE OFF IN ITS INDEBTEDNESS TO OUTSIDE WORLD THAN AT OUTSET. SHORT-TERM BORROWING CONTINUES TO RISE RAPIDLY IN EFFORT TO COVER UNFINANCED GAP IN FOREIGN EXCHANGE TRANSACTIONS, BUT SRI LANKA'S ABILITY TO CONTINUE THIS COURSE IS INCREASINGLY IN QUESTION, ESPECIALLY IF EVEN LARGER FOOD IMPORTS HAVE TO BE MADE.

15. THIS BLEAK PROGNOSIS MUST ALSO INCLUDE DOMESTIC POLICY AS NEGATIVE CONSTRAINT ON CEYLONESE ECONOMY, AND ONE OF REASONS SRI LANKA'S PRODUCTIVE CAPACITY IN ALL SECTORS-- AGRICULTURAL, PLANTATION, PRIVATE AND PUBLIC INDUSTRY--CONTINUES TO REGISTER STEADY DETERIORATION. EVEN THOSE FEW AREAS OF FAVORABLE GROWTH PERFORMANCE ESTABLISHED SINCE 1970 --TOURISM, GEMS, NON-TRADITIONAL EXPORTS--HAVE COME UNDER HEAVY ATTACK. LSSP FINANCE MINISTER'S NOVEMBER 6 BUDGET, WITHDRAWING TAX PRIVILEGES AND INVESTMENT INCENTIVES EITHER BY OUTRIGHT REPEAL OR BY NEAR-CONFISCATORY WEALTH TAX (COLOMBO 3355, DECEMBER 3, 1974), HAS DEMORALIZED PRIVATE SECTOR. TARGETING OF INDIVIDUALS AND FAMILIES EITHER FOR NATIONALIZATION OF THEIR BUSINESSES OR FOR CRIMINAL PROSECUTION UNDER EXCHANGE CONTROL REGULATIONS TOOK ON CONSIDERABLE MOMENTUM DURING LAST TWO MONTHS AND CAN ONLY ADD TO GENERAL UNEASINESS AND RELUCTANCE TO INVEST. BY SAME TOKEN, PROSPECTS FOR PRIVATE FOREIGN INVESTMENT, AT ONE POINT MODERATELY PROMISING, ARE NOW LANGUISHING, AT LEAST UNTIL DEBATE WITHIN UNITED FRONT ON NATIONALIZATION IS

SETTLED.

16. FOREIGN POLICY: SEARCH FOR AID: SRI LANKA'S FOREIGN POLICY HAS BEEN FOCUSED ALMOST ENTIRELY ON MAXIMIZING EXTERNAL ASSISTANCE FOR SRI LANKA, IN RECOGNITION THAT EXTREME HARDSHIP, PERHAPS EVEN LOCALIZED FAMINE, WILL BE AVERTED ONLY TO DEGREE THAT FOREIGN DONORS PLAY A ROLE. INCREASINGLY PROMINENT DIMENSION OF SRI LANKA'S FOREIGN POLICY IS EMPHASIS ON ITS MOST SEVERELY AFFECTED (MSA) STATUS IN WAKE OF OIL PRICE HIKES AND WORLD ECONOMIC CRISIS. THIS TACK GIVES GSL LEVERAGE IN ITS CLAIM FOR AID FROM OIL PRODUCERS AND DC'S. DUTCH, FOR EXAMPLE, WHO HAVE IN RECENT YEARS NOT PLAYED AID ROLE IN SRI LANKA, CONFIDENTIAL

PAGE 04 COLOMB 00112 02 OF 02 130346Z

JOINED WESTERN AID GROUP IN DECEMBER WITH \$9.5 MILLION PACKAGE. BUT MAIN OBJECT OF MRS. BANDARANAIKE'S LATEST ATTENTION HAS BEEN MIDDLE EAST OIL PRODUCERS.

17. PRIME MINISTER'S VISIT TO IRAN, OCTOBER 28-30, LED TO GOI PLEDGE OF \$67 MILLION CREDIT PACKAGE (AND CORRESPONDINGLY TO GUARDED BUT NOT HOSTILE CEYLONSE REACTION TO IRAN'S PROPOSAL FOR A SOUTHERN ASIAN REGIONAL AND SECURITY GROUPING). IRANIAN LOAN FOLLOWED AN EARLIER \$21 MILLION LINE OF CREDIT FROM KUWAIT IN JULY (COLOMBO 2302, AUGUST 15, 1974) AND WAS IN TURN FOLLOWED BY ANNOUNCEMENT DECEMBER 1 OF \$20 MILLION IRAQI LOAN. ALTHOUGH NET INCREMENT TO SRI LANKA'S ASSETS HARDLY COVERS DAMAGE WREAKED BY HIGHER OIL AND FOOD PRICES, GSL HAS SUCCEEDED IN BEING INCLUDED IN FIRST GROUP OF MSA'S TO OBTAIN OIL-PRODUCER LOANS. EDUCATION MINISTER BADI-UD-DIN MAHMUD TOLD PRESS JANUARY 5 THAT DELEGATION HE LED TO ARAB COUNTRIES IN LATE DECEMBER HAS SECURED FIRM COMMITMENTS FOR TOTAL OF \$64 MILLION IN "ABSOLUTE CREDITS AND SOF LOANS" FROM SAUDI ARABIA, UNITED ARAB EMIRATES, QATAR, BAHRAIN, AND KUWAIT.

18. THERE IS ALSO BROAD OVERLAPPING BETWEEN MRS. BANDARANAIKE'S PERSONAL DIPLOMATIC EFFORTS TO AUGMENT ASSISTANCE FOR HER COUNTRY AND HER PARALLEL DESIRE TO RAISE SRI LANKA'S PROFILE AS 1976 COLOMBO NON-ALIGNED SUMMIT CONFERENCE APPROACHES. ON BOTH SCORES GSL HAS GOOD REASON TO AVOID POLEMICAL ISSUES IN FAVOR OF BROAD MIDDLE GROUND OF COMMON-INTEREST PROBLEMS, AND ECONOMIC CRISIS AFFORDS EXCELLENT SELECTION OF PROBLEMS TO BE ADDRESSED. THUS MORE BRISK CEYLONSE DIPLOMACY IN LAST FEW MONTHS HAS SO FAR NOT MADE ITS SUBSTANCE MORE CONTENTIOUS NOR, FROM AMERICAN PERSPECTIVE, ANY LESS COMPATIBLE WITH OUR INTERESTS.

19. IN OTHER DIRECTIONS, INDIAN FOREIGN MINISTER CHAVAN TURNED UP IN COLOMBO IN EARLY DECEMBER, BUT, WITH NO REAL ISSUES DIVIDING THE TWO COUNTRIES, VISIT WAS MORE IN

NATURE OF FAMILIARIZATION TOUR. PRIME MINISTER ALSO VISITED MOSCOW IN NOVEMBER FOR FIRST TIME SINCE COMING TO OFFICE IN 1970. ALTHOUGH SHASWAS NOT ENTIRELY PLEASED WITH ATMOSPHERICS OF VISIT (COLOMBO 3313, NOVEMBER 27, 1974), YET SOVIET PLEDGE
CONFIDENTIAL

PAGE 05 COLOMB 00112 02 OF 02 130346Z

TO UNDERTAKE SAMANALA WEWA IRRIGATION PROJECT WAS USSR'S FIRST NEW AID COMMITMENT SINCE 1958. WHILE EVIDENCE OF SOVIET INTENTIONS IS STILL NOT CLEAR, THIS DECISION MAY REPRESENT

SHIFT IN SIGNALS IN USSR'S POLICY TOWARDS SRI LANKA. RUSSIANS WERE ALSO HELPFUL TO MRS. BANDARANAIKE IN HER DOMESTIC TROUBLES. THEY ALL BUT ORDERED COMMUNIST PARTY/MOSCOW WING TO STAY OUT OF ULFP-LSSP FRAY AND, INDEED, EVEN TO TAKE INITIATIVE AS HELPFUL BROKER BETWEEN TWO PARTIES. ONE RESULT OF SOVIET ATTITUDE SHOULD BE TO STRENGTHEN GSL HAND WITH CHINESE IN NEGOTIATING ON RICE-RUBBER PACT LATER THIS MONTH. PACT PROVIDES ESSENTIAL INPUT INTO RATION SYSTEM, AND CEYLONSE ARE HOPING FOR GENEROUS SUPPLEMENT TO USUAL 200,000 TONS. WESTERN AID GROUP HAS MOVED AHEAD TO IMPLEMENT PLEDGES OF APPROXIMATELY \$120 MILLION MADE LAST MAY, WITH SINGLE NOTABLE EXCEPTION OF UNITED STATES.

20. RELATIONS WITH UNITED STATES: BILATERAL RELATIONS BETWEEN SRI LANKA AND UNITED STATES ARE GOOD AT PRESENT MOMENT.

INCREASINGLY, HOWEVER, WE ARE BECOMING ODD MAN OUT IN OUR INABILITY TO FULFILL LAST MAY'S AID PLEDGE. ON ISSUES THAT COUNT FOR US--INDIAN OCEAN, SOUTH ASIA, AND UNGA PROCEEDINGS--GSL INPUT HAS RANGED FROM HELPFUL TO TACTICALLY DISCREET. ON SENSITIVE REGIONAL QUESTION OF US INDIAN OCEAN PRESENCE, WITH RECENT HEAVY EXPOSURE DUE TO DIEGO GARCIA PLANS, MID-LINK EXERCISES, AND NAVAL DEPLOYMENTS, CEYLONSE HAVE BEEN TELLICENT TO POINT OF SILENCE AND AMONG FEW INDIAN OCEAN LITTORAL STATES TO REFRAIN FROM NEGATIVE COMMENT. AT MOMENT HOPE FOR SOME PL 480 ALLOCATION STILL EXISTS, AND GSL, IN ITS HARRIED SEARCH FOR AID, STILL COUNTS ON ITS GOOD AND AND CONSTRUCTIVE RELATIONSHIP WITH US.
BYRNE

CONFIDENTIAL

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: Z
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, AGRICULTURAL PRODUCTION, FOOD SHORTAGE, QUARTERLY REPORTS, POLITICAL SITUATION
Control Number: n/a
Copy: SINGLE
Draft Date: 10 JAN 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975COLOMB00112
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: 11652 GDS/LIMDIS
Errors: n/a
Film Number: D750012-0315
From: COLOMBO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750189/baaaauvm.tel
Line Count: 423
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 8
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 11 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 JUN 2003 by BoyleJA>; APPROVED <12 JUN 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: PFOR, PINT, ECON, CE
To: STATE INFO DACCA
KATHMANDU
ISLAMABAD
NEW DELHI
KABUL
TEHRAN

CINCPAC HONOLULU HI

Type: TE

Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006